

**CHARTER OAK-UTE
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2012

TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 13
Statement of Activities	B 14-15
Governmental Fund Financial Statements:	
Balance Sheet	C 16-17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 18
Statement of Revenues, Expenditures and Changes in Fund Balances	E 19-20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 21
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 22
Statement of Revenues, Expenses and Changes in Fund Net Assets	H 23
Statement of Cash Flows	I 24
Notes to Financial Statements	25-34
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	35
Note to Required Supplementary Information - Budgetary Reporting	36
Schedule of Funding Progress for the Retiree Health Plan	37
Supplementary Information:	<u>Schedule</u>
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	1 38
Schedule of Revenues by Source and Expenditures by Functions - All Governmental Funds	2 39
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	40-41
Schedule of Findings	42-44

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2011 Election)		
Betty Lou Olson	President	2011
Dean Staley	Vice President	2011
Bill Magill		2013
Jim Ewoldt		2011
Valeta Pautsch		2013
(After September 2011 Election)		
Betty Lou Olson	President	2015
Dean Staley	Vice President	2015
Bill Magill		2013
Jim Ewoldt		2015
Valeta Pautsch		2013
School Officials		
Rollie Wiebers	Superintendent	
Cathy Carstens	District Secretary /Treasurer	

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Financial Statement Preparation
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Independent Auditor's Report

To the Board of Education of
Charter Oak-Ute Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Charter Oak-Ute Community School District, Charter Oak, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund of Charter Oak-Ute Community School District at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 25, 2013 on our consideration of Charter Oak-Ute Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

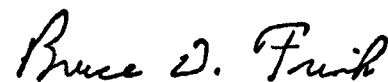
U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 12 and 35 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to

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our inquires, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Charter Oak-Ute Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011 (which are not presented herein) and expressed an unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. general accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Bruce D. Frink". The signature is written in a cursive, flowing style.

BRUCE D. FRINK
Certified Public Accountant

March 25, 2013

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Charter Oak-Ute Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- General Fund Revenues decreased from \$3,565,850 in fiscal 2011 to \$3,399,828 in fiscal 2012, (a five percent decrease) while General Fund expenditures increased from \$3,366,573 in fiscal 2011 to \$3,399,855 in fiscal 2012 (a one percent increase).
- Local sources of income increased. The increase in expenses was mainly attributed to the increased spending in instructional areas. The General Fund balance held steady.
- The Charter Oak-Ute Community School District collects statewide sales, services and use tax. These funds are being used to finance improvements in the District's infrastructure including an addition to the Charter Oak building.
- Declining enrollment will force the District to take further cost containment measures in the near future.
- The District spent over \$600,000 on an addition to the Charter Oak building that will allow all grades PreK-12 to be housed in the same facility. This should result in some savings from the General Fund.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Charter Oak-Ute Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Charter Oak-Ute Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the Activity Fund and a multiyear comparison of revenues and expenses.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Charter Oak-Ute Community School District Annual Financial Report

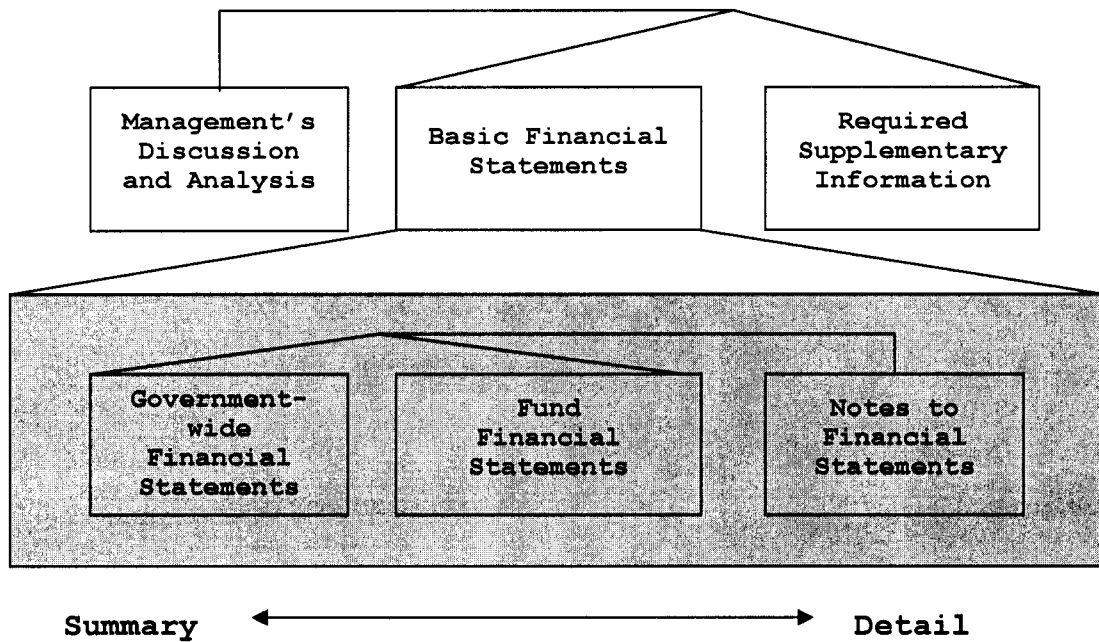


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Fund
Scope	Entire District	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activity the District operates similar to private businesses: food services
Required financial statements	<ul style="list-style-type: none"> . Statement of net assets . Statement of activities 	<ul style="list-style-type: none"> . Balance sheet . Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> . Statement of net assets . Statement of revenues, expenses and changes in fund net assets . Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has elected to present all funds as "major funds" for clarity of presentation.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business type activities but provide more detail and additional information, such as cash flows. The District's Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets at June 30, 2012 compared to June 30, 2011.

Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-2012
Current assets	\$ 4,140	3,855	42	48	4,182	3,903	7.15%
Capital assets	2,624	2,016	1	2	2,625	2,018	30.08%
Total assets	<u>6,764</u>	<u>5,871</u>	<u>43</u>	<u>50</u>	<u>6,807</u>	<u>5,921</u>	<u>14.96%</u>
Current liabilities	1,892	1,742	-	-	1,892	1,742	8.61%
Long-term liabilities	1,087	464	-	-	1,087	464	0.00%
Total liabilities	<u>2,979</u>	<u>2,206</u>	<u>-</u>	<u>-</u>	<u>2,979</u>	<u>2,206</u>	<u>35.04%</u>
Net Assets							
Invested in capital assets, net of related debt	1,670	1,594	1	2	1,671	1,596	4.70%
Nonspendable	16	35	-	-	16	35	100.00%
Restricted	938	815	-	-	938	815	15.09%
Unrestricted	1,161	1,221	42	48	1,203	1,269	-5.20%
Total net assets	<u>\$ 3,785</u>	<u>3,665</u>	<u>43</u>	<u>50</u>	<u>3,828</u>	<u>3,715</u>	<u>3.04%</u>

The District's combined net assets increased by over 3%, over the prior year. The largest portions of the District's net assets are invested in capital assets and cash.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, decreased approximately 5%. This decrease was due primarily to no growth in the General Fund.

Restricted assets grew by 15% primarily in the Management Levy as the District accumulates funds to provide for future retirements. This is being done to avoid huge property increases in a one year period.

Invested in capital assets grew as the District invested over \$600,000 in an addition to the Charter Oak building.

Figure A-4 shows the changes in net assets for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-4 Changes in Net Assets (Expressed in Thousands)							
Governmental Activities		Business Type Activities		Total School District		Total Change	
2012	2011	2012	2011	2012	2011	2011-2012	
Revenues:							
Program revenues:							
Charges for service and sales	\$ 264	248	76	75	340	323	5.26%
Operating grants, contributions and restricted interest	714	848	110	107	824	955	-13.72%
General revenues:							
Property tax	1,346	1,344	-	-	1,346	1,344	0.15%
Income surtax	152	207	-	-	152	207	-26.57%
Statewide sales, services and use tax	290	216	-	-	290	216	34.26%
Unrestricted state grants	1,202	1,208	-	-	1,202	1,208	-0.50%
Unrestricted investment earnings	7	8	-	-	7	8	-12.50%
Other	54	124	-	-	54	124	-56.45%
Total revenues	<u>4,029</u>	<u>4,203</u>	<u>186</u>	<u>182</u>	<u>4,215</u>	<u>4,385</u>	<u>-3.88%</u>
Program expenses:							
Governmental activities:							
Instruction	2,486	2,405	-	-	2,486	2,405	3.37%
Support Services	1,217	1,189	-	-	1,217	1,189	2.35%
Non-instructional programs	1	-	192	164	193	164	17.68%
Other expenses	205	165	-	-	205	165	24.24%
Total expenses	<u>3,909</u>	<u>3,759</u>	<u>192</u>	<u>164</u>	<u>4,101</u>	<u>3,923</u>	<u>4.54%</u>
Change in net assets	<u>\$ 120</u>	<u>444</u>	<u>(6)</u>	<u>18</u>	<u>114</u>	<u>462</u>	<u>-75.32%</u>

Property tax and unrestricted state grants account for 60% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 90% of the total expenses. This percentage is above the state average and shows the District's commitment to channeling funds directly to student needs as much as possible.

Property taxes remained steady in order to deal with the inconstant funding from state and federal sources.

Controlling payroll and benefits costs continues to be a major focus as they constitute the largest part of the District's expenditures.

Governmental Activities

Revenues for governmental activities were \$4,028,501 and expenses were \$3,908,632.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-5						
Total and Net Cost of Governmental Activities						
(Expressed in Thousands)						
	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-2012	2012	2011	Change 2011-2012
Instruction	\$ 2,486	2,405	3.37%	1,657	1,454	13.96%
Support services	1,217	1,189	2.35%	1,192	1,183	0.76%
Non-instructional programs	1	-	100.00%	1	-	100.00%
Other expenses	205	165	24.24%	81	25	224.00%
Totals	<u>\$ 3,909</u>	<u>3,759</u>	<u>3.99%</u>	<u>2,931</u>	<u>2,662</u>	<u>10.11%</u>

For the year ended June 30, 2012:

- The cost financed by users of the District's programs was \$264,401 (a 6% increase).
- Federal and state governments subsidized certain programs with grants and contributions totaling \$443,677. This is 25% less than FY11.
- The net cost of governmental activities was financed with \$1,345,107 in property and other taxes and \$1,202,195 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ending June 30, 2012 were \$185,895 and expenses totaled \$192,210. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2012, the District raised meal prices slightly. The fund balance decreased by over \$6,000 despite cost containment measures.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted Charter Oak-Ute Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund Highlights

- The district's General Fund financial position held steady primarily from cost containment measures in salaries and benefits. The preservation of the General Fund balance is especially important in light of the fact that the district is now on the 101% Budget Guarantee and future funding will depend more heavily on student enrollment.
- The Charter Oak-Ute Community School District's PPEL and Capital Projects Funds decreased in fiscal year 2012 as the District continues to upgrade its infrastructure, as well as maintain and equip its facilities.
- The District issued debt to fund an addition to the Charter Oak building. Funds to pay this debt will come from the statewide sales, service and use tax.

Proprietary Fund Highlights

The School Nutrition Fund cash balance decreased approximately \$6,000 despite continued cost containment measures.

BUDGETARY HIGHLIGHTS

The District's receipts were \$29,000 less than budgeted receipts, a variance of 1%. The most significant variance resulted from the District receiving less in state revenues than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. Expenditures did not exceed the budgeted amounts in any of the four functions. The District ended the year with a positive unspent authorized budget. The District also amended its budget to reflect the expense associated with the building project.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested \$2,624,251, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 30% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$164,494.

The original cost of the District's capital assets was \$5,591,706. Governmental funds account for \$5,584,617, with the remainder of \$7,089 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building category. The District is using its statewide sales, services and use tax funds to do a variety of infrastructure projects throughout the District.

Figure A-6
Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-2012
Land	\$ 1	1	-	-	1	1	0.00%
Construction in progress	645	-	-	-	645	-	100.00%
Land improvements	441	429	-	-	441	429	2.80%
Buildings	1,213	1,247	-	-	1,213	1,247	-2.73%
Furniture and equipment	324	339	1	1	325	340	-4.41%
Totals	<u>\$ 2,624</u>	<u>2,016</u>	<u>1</u>	<u>1</u>	<u>2,625</u>	<u>2,017</u>	<u>30.14%</u>

Long-Term Debt

The District has early retirements included in its long-term debt. Early retirements will be paid from the Management Fund as they come due.

In fiscal year 2012, the District sold \$800,000 of revenue bonds to be used for an addition to the Charter Oak building. The existing debt was fully retired during the current fiscal year. The final payment will be made in fiscal year 2022.

The District signed a capital lease for \$302,916 for the purchase of laptop computers \$72,440 was paid in FY12.

Figure A-7
Outstanding Long-Term Obligations
(Expressed in Thousands)

	Total District		Total Change
	June 30,		June 30,
	2012	2011	2011-2012
Revenue bonds	\$ 800	195	310.26%
OPEB liability	19	13	46.15%
Capital lease payable	155	227	100.00%
Early retirement payable	<u>113</u>	<u>30</u>	<u>276.67%</u>
Totals	<u>\$ 1,087</u>	<u>465</u>	<u>133.76%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Declines in enrollment in future years will have serious consequences as less state aid will be received and bigger burden put on property tax money.
- State aid cuts will force the District to look for other avenues of revenue as well as areas in which it can further edit costs.
- The increased costs in open enrollment out tuition will be there for years to come.
- Increased costs in salary expenditures and lost revenue from enrollment declines, could also force the district to consider doing away with the practice of maintaining small class section sizes at the elementary and Junior High grade levels.
- The District also relies on special state and federal funding sources to fund teacher salaries and cuts in these funding sources would have serious negative consequences for the district.
- The District continues to upgrade its facilities and equipment in order to provide the best learning environment possible to its students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Rollie Wiebers, Superintendent, Charter Oak-Ute Community School District, 321 Main Street, Charter Oak, IA 51439.

Basic Financial Statements

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2012

	Governmental Activities	Business Type Activities	Total
Assets			
Cash	\$ 2,413,888	41,033	2,454,921
Restricted cash	80,000	-	80,000
Receivables:			
Property tax:			
Current year	17,503	-	17,503
Succeeding year	1,336,920	-	1,336,920
Income surtax - succeeding year	130,494	-	130,494
Due from other governments	144,437	-	144,437
Inventories	16,280	1,050	17,330
Capital assets, non-depreciable	646,033	-	646,033
Capital assets, net of accumulated depreciation	1,978,218	1,305	1,979,523
Total assets	6,763,773	43,388	6,807,161
Liabilities			
Accounts payable	252,875	-	252,875
Accrued payroll and benefits	292,110	-	292,110
Accrued interest payable	9,861	-	9,861
Deferred revenue:			
Succeeding year property tax	1,336,920	-	1,336,920
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	20,337	-	20,337
Capital lease payable	75,641	-	75,641
Revenue bonds	65,000	-	65,000
Portion due after one year:			
Early retirement payable	92,497	-	92,497
Capital lease payable	78,982	-	78,982
Revenue bonds	735,000	-	735,000
Net OPEB liability	19,420	-	19,420
Total liabilities	2,978,643	-	2,978,643
Net assets			
Invested in capital assets, net of related debt	1,749,628	1,305	1,750,933
Nonspendable	16,280	-	16,280
Restricted for:			
Categorical funding	3,280	-	3,280
Student activities	51,500	-	51,500
Management levy purposes	220,613	-	220,613
Physical Plant and Equipment	115,362	-	115,362
Capital Projects	467,302	-	467,302
Unrestricted	1,161,165	42,083	1,203,248
Total net assets	\$ 3,785,130	43,388	3,828,518

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2012

	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets	
	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
Expenses				Total
Business type activities:				
Non-instructional programs:				
Nutrition services	192,210	75,688	110,207	(6,315)
			-	(6,315)
Total	<u>\$ 4,100,842</u>	<u>340,089</u>	<u>(2,930,430)</u>	<u>(2,936,745)</u>
General Revenues:				
Property tax levied for:				
General purposes			\$ 1,162,233	-
Management levy			129,822	-
Capital outlay			53,052	-
Income surtax levied for:				
Instructional support			81,995	-
Capital outlay			70,281	-
Statewide sales, services and use tax			289,664	-
Unrestricted state grants			1,202,195	-
Unrestricted investment earnings			6,949	-
Other			54,108	-
Total general revenues			<u>3,050,299</u>	<u>3,050,299</u>
Change in net assets			119,869	(6,315)
Net assets beginning of year			<u>3,665,261</u>	<u>49,703</u>
Net assets end of year			<u>\$ 3,785,130</u>	<u>43,388</u>
				<u>3,828,518</u>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2012

	Special Revenue		Capital Projects		
	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Statewide Sales, Services and Use Tax
Cash	\$ 1,375,403	51,500	331,758	49,425	605,802
Restricted cash	-	-	-	-	80,000
Receivables:					
Property tax:					
Current year	15,124	-	1,689	690	-
Succeeding year	1,126,281	-	150,000	60,639	-
Income surtax - succeeding year	65,247	-	-	65,247	-
Due from other governments	67,913	-	-	-	76,524
Inventory	16,280	-	-	-	-
Total assets	\$ 2,666,248	51,500	483,447	176,001	762,326
					4,139,522

Assets

Cash	2,413,888
Restricted cash	80,000
Receivables:	
Property tax:	
Current year	17,503
Succeeding year	1,336,920
Income surtax - succeeding year	130,494
Due from other governments	144,437
Inventory	16,280

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2012

	Special Revenue		Capital Projects		Total
	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	
Liabilities:					
Accounts payable	\$ 37,851	-	-	-	252,875
Accrued payroll and benefits	292,110	-	-	-	292,110
Deferred revenue:					
Succeeding year property tax	1,126,281	-	150,000	60,639	1,336,920
Succeeding year income surtax	65,247	-	-	65,247	130,494
Total liabilities	1,521,489	-	150,000	125,886	2,012,399
Fund balances:					
Nonspendable	16,280	-	-	-	16,280
Restricted for:					
Categorical funding	3,280	-	-	-	3,280
Student activities	-	51,500	-	-	51,500
Management levy purposes	-	-	333,447	-	333,447
Physical plant and equipment	-	-	-	50,115	50,115
School infrastructure	-	-	-	547,302	547,302
Unassigned	1,125,199	-	-	-	1,125,199
Total fund balance	1,144,759	51,500	333,447	50,115	2,127,123
Total liabilities and fund balances	\$ 2,666,248	51,500	483,447	176,001	4,139,522

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2012

Total fund balances of governmental funds (Exhibit C)		\$ 2,127,123
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		2,624,251
Income surtax receivable at June 30, 2012 is not available to finance expenditures of the current fiscal period.		130,494
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(9,861)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Early retirement	\$ (112,834)	
Capital lease payable	(154,623)	
Revenue bonds	(800,000)	
Net OPEB liability	<u>(19,420)</u>	<u>(1,086,877)</u>
Net assets of governmental activities (Exhibit A)		<u>\$ 3,785,130</u>

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2012

	Special Revenue			Capital Projects			Debt Service	Total
	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Statewide Sales Services and Use Tax			
Revenues:								
Local sources:								
Local tax	\$ 1,302,796	-	129,822	123,333	289,664	-	-	1,845,615
Tuition	264,401	-	-	-	-	-	-	264,401
Other	64,971	117,002	5,084	20,259	1,969	-	-	209,285
State sources	1,629,005	-	77	31	-	-	-	1,629,113
Federal sources	138,655	-	-	-	-	-	-	138,655
Total revenues	3,399,828	117,002	134,983	143,623	291,633	-	-	4,087,069
Expenditures:								
Instruction	2,194,809	109,263	30,965	-	-	-	-	2,335,037
Support services:								
Student services	70,219	-	-	-	-	-	-	70,219
Instructional staff services	41,196	-	-	-	-	-	-	41,196
Administration services	452,190	-	1,221	15,512	-	-	-	468,923
Operation and maintenance of plant services	322,574	-	17,953	29,375	-	-	-	369,902
Transportation services	196,971	-	5,916	56,350	-	-	-	259,237
	1,083,150	-	25,090	101,237	-	-	-	1,209,477
Non-instructional programs:								
Food service operations	-	-	1,221	-	-	-	-	1,221

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2012

	Special Revenue		Capital Projects			Debt Service	Total
	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Statewide Sales Services and Use Tax		
Other expenditures:							
Facilities acquisition and construction services	-	-	-	57,556	680,982	-	738,538
Debt service:							
Principal	-	-	-	-	-	267,440	267,440
Interest	-	-	-	-	-	13,510	13,510
AEA flowthrough	121,896	-	-	-	-	-	121,896
	121,896	-	-	57,556	680,982	280,950	1,141,384
Total expenditures	3,399,855	109,263	57,276	158,793	680,982	280,950	4,687,119
Excess (deficiency) of revenues over (under) expenditures	(27)	7,739	77,707	(15,170)	(389,349)	(280,950)	(600,050)
Other financing sources (uses)							
Revenue bond proceeds	-	-	-	-	800,000	-	800,000
Operating transfers in	-	-	-	-	-	280,950	280,950
Operating transfers out	-	-	-	-	(280,950)	-	(280,950)
	-	-	-	-	519,050	280,950	800,000
Net change in fund balances	(27)	7,739	77,707	(15,170)	129,701	-	199,950
Fund balances beginning of year	1,144,786	43,761	255,740	65,285	417,601	-	1,927,173
Fund balances end of year	\$ 1,144,759	51,500	333,447	50,115	547,302	-	2,127,123

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2012

Net change in fund balances - total governmental funds (Exhibit E) \$ 199,950

**Amounts reported for governmental activities in the Statement of
Activities are different because:**

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities
This represents the change from the prior fiscal year (58,568)

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 772,589	
Depreciation expense	<u>(164,494)</u>	608,095

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (7,178)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	(83,279)	
Other postemployment benefits	<u>(6,591)</u>	(89,870)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	(800,000)	
Repaid	<u>267,440</u>	<u>(532,560)</u>

Change in net assets of governmental activities (Exhibit B) \$ 119,869

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

Year ended June 30, 2012

	Business Type
	<u>School</u>
	<u>Nutrition</u>
Assets	
Cash and pooled investments	\$ 41,033
Inventories	1,050
Capital assets, net of accumulated depreciation	<u>1,305</u>
Total assets	<u>43,388</u>
Net Assets	
Invested in capital assets, net of related debt	1,305
Unrestricted	<u>42,083</u>
Total net assets	<u>\$ 43,388</u>

See notes to financial Statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2012

	<u>School Nutrition</u>
Operating revenue:	
Local sources:	
Charges for services	\$ 75,688
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	52,442
Benefits	8,021
Supplies	131,561
Depreciation	<u>186</u>
Total operating expenses	<u>192,210</u>
Operating (loss)	<u>(116,522)</u>
Non-operating revenues:	
Local sources	302
State sources	1,848
Federal sources	<u>108,057</u>
	<u>110,207</u>
Increase in net assets	(6,315)
Net assets beginning of year	<u>49,703</u>
Net assets end of year	<u>\$ 43,388</u>

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2012

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 75,688
Cash payments to employees for services	(60,463)
Cash payments to suppliers for goods or services	<u>(122,245)</u>
Net cash (used by) operating activities	<u>(107,020)</u>
Cash flows from non-capital financing activities:	
State grants received	1,848
Federal grants received	<u>98,495</u>
Net cash provided by non-capital financing activities	<u>100,343</u>
Cash flows from financing activities:	
Interest on investments	<u>302</u>
Net increase in cash and cash equivalents	(6,375)
Cash and cash equivalents beginning of year	<u>47,408</u>
Cash and cash equivalents end of year	<u><u>\$ 41,033</u></u>
Reconciliation of operating (loss) to net cash (used by)	
operating activities:	
Operating (loss)	\$ (116,522)
Adjustments to reconcile operating (loss) to net cash	
(used by) operating activities:	
Depreciation expense	186
Commodities used	9,562
(Increase) in inventory	<u>(246)</u>
Net cash (used by) operating activities	<u><u>\$ (107,020)</u></u>

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2012, the District received federal commodities valued at \$9,562.

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

Charter Oak-Ute Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Charter Oak, Ute and Soldier, Iowa, and agricultural area in Monona and Crawford Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Charter Oak-Ute Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Charter Oak-Ute Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Monona and Crawford Counties Assessor's Conference Boards.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has elected to present all funds as major funds for clarity of presentation.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Management Levy Fund is utilized for the payment of insurance, unemployment and early retirement benefits.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Physical Plant and Equipment Levy is used to purchase equipment (over \$500 per item) and for major repairs and improvements to buildings and grounds. It is funded primarily through a combination of property tax and income surtax.

The Capital Projects Fund is used to purchase equipment (over \$500 per item) and for major repairs and improvements to buildings and grounds as well as for infrastructure construction projects.

The Student Activity Fund is used to account for extra curricular activities conducted on behalf of the students.

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

Cash and Cash Equivalents - The cash balances of most District funds are pooled and invested.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget by April 15th of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2011.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment and intangibles are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years. No intangible assets were noted that exceeded the threshold amount.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1
Buildings	10,000
Improvements other than buildings	1,000
Intangibles	25,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Intangibles	5-10 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and income surtax receivables that will not be recognized as revenue until the year for which it is levied and federal revenues for which funds were received prior to June 30, 2012 but will not be spent until the following fiscal year.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2012.

Long-Term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Non-spendable - The non-spendable fund account includes amounts that cannot be spent because they are either not in spendable form or cannot be converted to cash soon enough to affect the current period or are resources that must remain intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed its General Fund unspent authorized budget.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2012.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,247	-	-	1,247
Construction in progress	-	644,786	-	644,786
	<u>1,247</u>	<u>644,786</u>	<u>-</u>	<u>646,033</u>
Capital assets being depreciated:				
Buildings	2,131,083	-	-	2,131,083
Improvements other than buildings	623,721	36,150	-	659,871
Furniture and Equipment	<u>2,055,977</u>	<u>91,653</u>	<u>-</u>	<u>2,147,630</u>
Total capital assets being depreciated	<u>4,810,781</u>	<u>127,803</u>	<u>-</u>	<u>4,938,584</u>
Less accumulated depreciation for:				
Buildings	883,527	34,248	-	917,775
Improvements other than buildings	194,940	24,392	-	219,332
Furniture and Equipment	<u>1,717,405</u>	<u>105,854</u>	<u>-</u>	<u>1,823,259</u>
Total accumulated depreciation	<u>2,795,872</u>	<u>164,494</u>	<u>-</u>	<u>2,960,366</u>
Total capital assets being depreciated, net	<u>2,014,909</u>	<u>(36,691)</u>	<u>-</u>	<u>1,978,218</u>
Governmental activities, capital assets, net	<u>\$ 2,016,156</u>	<u>608,095</u>	<u>-</u>	<u>2,624,251</u>
Business type activities:				
Furniture and equipment	\$ 7,089	-	-	7,089
Less accumulated depreciation	<u>5,598</u>	<u>186</u>	<u>-</u>	<u>5,784</u>
Business type activities capital assets, net	<u>\$ 1,491</u>	<u>(186)</u>	<u>-</u>	<u>1,305</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Instruction				\$ 60,583
Support services:				
Operation and maintenance of plant				67,235
Transportation				32,348
Unallocated				<u>4,328</u>
Total depreciation expenses - governmental activities				<u>\$ 164,494</u>
Business Type activities				
Food service operations				<u>\$ 186</u>

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members were required to contribute 5.38% of their annual salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$110,193, \$108,928, and \$92,055 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$121,896 for year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Risk Management

Charter Oak-Ute Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012 are summarized as follows:

	<u>Balance Beginning Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
Lease Payable	\$227,063	-	72,440	154,623	75,641
Early Retirement	29,555	127,531	44,252	112,834	20,337
Revenue Bonds	195,000	800,000	195,000	800,000	65,000
Net OPEB Liability	<u>12,829</u>	<u>6,591</u>	<u>-</u>	<u>19,420</u>	<u>-</u>
Total	<u>\$464,447</u>	<u>934,122</u>	<u>311,692</u>	<u>1,086,877</u>	<u>160,978</u>

Early Retirement

The District offered a voluntary early retirement plan to its full-time employees. Eligible employees must be at least age fifty-five and employees must have completed at least eight years of consecutive service to the District. Employees completed an application for early retirement which must be accompanied by the employee's written resignation. Such resignations are conditional upon acceptance by the Board of the employee for the early retirement program. The District will pay the monthly premium for the single health and major medical insurance coverage. The retiree shall be notified of termination of benefits upon reaching age of sixty-five, death, or failure to make payment if participating in family plan at their option.

Early retirement benefits paid during the year ended June 30, 2012, totaled \$44,252. A liability has been recorded representing the District's commitment to fund early retirement costs.

Revenue Bonds

Details of the District's June 30, 2012 School Infrastructure Sales Tax Revenue bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2013	0.50%	\$ 18,400	65,000	83,400
2014	0.85%	16,780	70,000	86,780
2015	1.20%	16,063	70,000	86,063
2016	1.55%	15,061	75,000	90,061
2017	1.90%	13,720	80,000	93,720
2018-2022	2.25-3.50%	<u>36,210</u>	<u>440,000</u>	<u>476,210</u>
Total		<u>\$116,234</u>	<u>800,000</u>	<u>916,234</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$800,000 bonds issued in 2011. The bonds were issued for the purpose of financing a portion of the costs of an addition to the high school. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2022. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 100 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$916,234. For the current year, \$204,389 of principal and interest was paid on the bonds and total statewide sales, services and use tax revenues were \$289,664.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$80,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District complied with all of the revenue bond provisions during the year ended June 30, 2012. The District designated \$80,000 in a money market account held by the District for debt retirement purposes.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$280,950</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(9) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 18 active members and 1 retired member in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which result in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefits plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 9,421
Interest on net OPEB obligation	321
Adjustment to annual required contribution	(842)
Annual OPEB cost	8,900
Contributions made	(2,309)
Increase in net OPEB obligation	6,591
Net OPEB obligation beginning of year	12,829
Net OPEB obligation end of year	<u>\$19,420</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2010. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the District implicitly contributed \$2,309 to the medical plan. Plan members eligible for benefits contributed \$0 of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$8,165	19.4%	\$ 6,584
June 30, 2011	8,735	22.0	12,829
June 30, 2012	8,900	25.9	19,420

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2012, the actuarial accrued liability was \$45,872, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$45,872. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,921,000 and the ratio of the UAAL to covered payroll was 2.4%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress presented as Required Supplementary Information, in the section following the Notes to Financial Statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2010 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from information provided by the District.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Required Supplementary Information

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2012

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Revenues:						
Local sources	\$ 2,319,301	75,990	2,395,291	2,327,424	2,327,424	67,867
State sources	1,629,113	1,848	1,630,961	1,723,422	1,723,422	(92,461)
Federal sources	138,655	108,057	246,712	251,500	251,500	(4,788)
Total revenues	<u>4,087,069</u>	<u>185,895</u>	<u>4,272,964</u>	<u>4,302,346</u>	<u>4,302,346</u>	<u>(29,382)</u>
Expenditures/Expenses:						
Instruction	2,335,037	-	2,335,037	3,427,992	3,427,992	1,092,955
Support services	1,209,477	-	1,209,477	1,482,993	1,482,993	273,516
Non-instructional programs	1,221	192,210	193,431	234,086	234,086	40,655
Other expenditures	1,141,384	-	1,141,384	508,470	1,508,470	367,086
Total expenditures/expenses	<u>4,687,119</u>	<u>192,210</u>	<u>4,879,329</u>	<u>5,653,541</u>	<u>6,653,541</u>	<u>1,774,212</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(600,050)	(6,315)	(606,365)	(1,351,195)	(2,351,195)	1,744,830
Other financing sources (uses)	<u>800,000</u>	<u>-</u>	<u>800,000</u>	<u>-</u>	<u>-</u>	<u>303,916</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	199,950	(6,315)	193,635	(1,351,195)	(2,351,195)	2,048,746
Balance beginning of year	<u>1,927,173</u>	<u>49,703</u>	<u>1,976,876</u>	<u>1,740,544</u>	<u>1,740,544</u>	<u>236,332</u>
Balance end of year	<u>\$ 2,127,123</u>	<u>43,388</u>	<u>2,170,511</u>	<u>389,349</u>	<u>(610,651)</u>	<u>2,285,078</u>

See accompanying independent auditor's report.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Note to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District amended its budget by \$1,000,000 to reflect the expense associated with the building project.

During the year ended June 30, 2012, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed its General Fund unspent authorized budget.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$0	\$49	\$49	0.0%	\$2,044	2.4%
2011	July 1, 2009	\$0	\$46	\$46	0.0%	\$2,057	2.2%
2012	July 1, 2009	\$0	\$46	\$46	0.0%	\$1,921	2.4%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

Supplementary Information

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2012

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Drama Club	\$ 6,540	609	1,257	5,892
Vocal	265	747	1,012	-
Band	399	16,662	5,660	11,401
Vending Machine/Pop - Charter Oak	472	773	940	305
Elementary Stand	6,815	4,639	1,987	9,467
Vending Machine/Pop - Ute	31	1,793	1,792	32
Basketball - Boys/Girls	2,368	8,583	9,942	1,009
Track - Boys/Girls	-	1,999	1,999	-
Football	1,518	6,348	7,533	333
Volleyball	722	3,565	4,007	280
Softball	223	4,691	3,955	959
Science Club	124	784	637	271
Annual	3,309	2,190	3,648	1,851
Newspaper	290	200	478	12
Spanish Club	375	-	-	375
Pep Club	1,030	668	1,119	579
FFA National Convention	2,199	2,400	2,365	2,234
FFA Fund	4,313	30,146	30,104	4,355
Student Council Sr High	2,689	4,459	4,789	2,359
Class of 2014	1,874	490	401	1,963
Class of 2013	1,273	21,880	19,120	4,033
Class of 2015	846	466	-	1,312
Class of 2016	628	946	534	1,040
Class of 2017	816	908	534	1,190
Class of 2012	4,642	790	5,430	2
Class of 2018	-	246	-	246
Interest	-	20	20	-
Total	\$ 43,761	117,002	109,263	51,500

See accompanying independent auditor's report.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Nine Years

	Modified Accrual Basis								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$1,845,615	1,784,636	1,718,477	1,597,974	1,500,384	1,450,792	1,389,813	1,303,133	1,174,964
Tuition	264,401	248,485	252,090	170,565	141,325	129,725	162,155	134,976	259,892
Other	209,285	254,752	194,892	206,375	212,299	219,753	188,467	171,112	154,238
State sources	1,629,113	1,632,944	1,349,712	1,655,583	1,607,944	1,552,952	1,472,765	1,568,214	1,107,579
Federal sources	138,655	299,745	322,558	167,724	129,054	225,805	212,189	255,760	291,153
Total	<u>\$4,087,069</u>	<u>4,220,562</u>	<u>3,837,729</u>	<u>3,798,221</u>	<u>3,591,006</u>	<u>3,579,027</u>	<u>3,425,389</u>	<u>3,433,195</u>	<u>2,987,826</u>
Expenditures:									
Instruction	\$2,335,037	2,633,749	2,145,397	2,221,295	2,225,946	2,229,392	2,228,804	2,284,107	1,991,138
Support services:									
Student	70,219	65,606	71,650	59,147	44,659	42,454	59,723	61,109	49,418
Instructional staff	41,196	50,915	47,739	60,886	77,754	109,602	49,777	1,334	3,078
Administration	468,923	439,172	397,923	380,269	398,239	356,759	306,131	314,724	293,964
Operation and maintenance of plant	369,902	333,938	297,719	311,394	324,472	282,827	267,784	263,323	267,961
Transportation	259,237	248,795	250,517	167,392	168,647	159,096	220,079	221,796	235,912
Non-instructional programs	1,221	222	1,087	1,166	3,397	2,038	2,448	1,856	11,001
Other expenditures:									
Long-term debt:									
Principal	267,440	135,853	60,000	130,000	55,000	-	-	6,364	2,000
Interest	13,510	16,487	13,417	18,624	9,371	-	-	-	-
Facilities acquisition	738,538	165,948	16,501	46,659	738,398	104,796	127,918	142,516	50,346
AEA flowthrough	121,896	136,948	130,790	121,409	114,358	110,135	106,094	106,466	85,829
Total	<u>\$4,687,119</u>	<u>4,227,633</u>	<u>3,432,740</u>	<u>3,518,241</u>	<u>4,160,241</u>	<u>3,397,099</u>	<u>3,368,758</u>	<u>3,403,595</u>	<u>2,990,647</u>

See accompanying independent auditor's report.

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Financial Statement Preparation
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Charter Oak-Ute Community School District:

We have audited the accompanying financial statements of the governmental activities and each major fund of Charter Oak-Ute Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 25, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Charter Oak-Ute Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Charter Oak-Ute Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Charter Oak-Ute Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Charter Oak-Ute Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-12 and I-B-12 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We noted no items which we consider to be significant deficiencies.

202 Central Avenue East
P.O. Box 241
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bruce@frinkcpa.com

Compliance and Other Matters

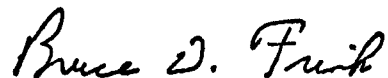
As part of obtaining reasonable assurance about whether Charter Oak-Ute Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Charter Oak-Ute Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Charter Oak-Ute Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Charter Oak-Ute Community School District and other parties to whom Charter Oak-Ute Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Charter Oak-Ute Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



BRUCE D. FRINK
Certified Public Accountant

March 25, 2013

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2012

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

I-A-12 Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged. The District should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-12 Auditor Drafting of the Financial Statements and Related Footnote Disclosures - As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 115, an auditing standard from the American Institute of Certified Public Accountants, requires auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy; we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your financial statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We feel our review of the draft financials is adequate for us to accept this risk.

Conclusion - Response accepted.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-12 Certified Budget - Expenditures for the year ended June 30, 2012, did not exceed the certified budget amount in any of the four functions.
- II-B-12 Questionable Expenditures - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-12 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-12 Business Transactions - No Business transactions between the District and District officials or employees were noted.
- II-E-12 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-12 Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- II-G-12 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- II-H-12 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-12 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- II-J-12 Certified Annual Report - The Certified Annual Report was certified timely with the Department of Education.
- II-K-12 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting: (continued):

II-L-12 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 417,601
Revenues/transfers in:		
Sales tax revenues	\$289,664	
Other local revenues	1,969	
Sale of long-term debt	<u>800,000</u>	<u>1,091,633</u>
		<u>1,509,234</u>
Expenditures/transfers out:		
School infrastructure construction	\$ 680,982	
Equipment	81,580	
Transfers to other funds:		
Debt service fund	<u>199,370</u>	<u>961,932</u>
Ending balance		<u>\$ 547,302</u>

For the year ended June 30, 2012, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.